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TO : Department of State

INFO : PARIS

FROM : Amembassy ROME

DATE: December 29, 1967

SUBJECT : CIVAIR: Bilateral Negotiations

REF :

Attached as enclosure 1 to this airgram is a memorandum of a conversation between Dr. Marcello Serafini, director of the Italian Foreign Ministry office in charge of civil aviation matters, and the reporting officer.

REINHARDT

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MEMORANDUM OF CONVERSATION

Date: December 22, 1967

Participants: Counselor Marcello Serafini, Foreign Office
Philip C. Nartem

Subject: CIVAIR: Bilateral Negotiations

I told Dr. Serafini that I had received a copy of a speech Assistant Secretary Loy had made in Montreal on the subject of negotiating route exchanges. I noted that the subject matter bore heavily on the U.S. position in the U.S.-Italy negotiations, even though these were not mentioned.

Serafini asked whether there were new departures in U.S. policy reflected in the speech. I said that I doubted he would find anything startlingly new or different from the positions put forward in the recent negotiating sessions. However, I thought it would be worth our while if he would look it over carefully so that we could discuss it in the future. As things stand, diplomatic conversations between Italy and the United States are supposed to begin in Washington in January. While these were suggested by Secretary Rusk to Foreign Minister Fanfani, they undoubtedly resulted from our reports that both Ambassador Capomazza and Serafini felt there was no point in beginning the negotiations again at the point where they had left off, and that some diplomatic preparation was indicated. We agree with this, but it is difficult to reach any conclusion about what will be discussed. For example, it is clear that we cannot get into discussions of what particular routes will be exchanged. Perhaps what would be useful in the imminent Washington discussions, would be for both sides to reach some sort of agreement on the bases for discussion.

Mr. Loy's speech contains a statement of U.S. policy on route exchanges. Basically, his point is that a route exchange is a commercial problem, and that it must therefore be based upon equating values on both sides of the exchange. He also says, and this is a point that Serafini has often emphasized as well, that the values exchanged must be considered to be future values, although for practical purposes we have used the past to help us judge the future.

Serafini said he understands that a route exchange must be a commercial exchange, and that it must be based on values. However, he did not think that governments have the ability to judge values properly. He thought that the airlines, who make their own plans and calculate future revenues based on them, might be able to reach realistic value judgments. He gave the hypothetical example of Panam planning to put so many 500-passenger

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planes per week into Rome in 1970, and to provide distributing services with smaller aircraft to other points in the Mediterranean area. This would be a future earning program known to Panam's planners, but not to either government. I said I had learned a bit about the preparation of route statistics last May, and I had been impressed by the work of the CAB statisticians. After all, they have a lot of experience in the international and the domestic fields. Basically, if the agreement is to be commercial, and must be based on values, it seemed to me that the place to begin our argument is here where the statistics are made. If our methods of calculation are not convincing, they should certainly be challenged. This would only serve to improve them. But I did not think it served our purposes to dismiss them.

Serafini said the question was made more complex by the fact that his government felt that commercial balance was not simply a matter of dollar values. For example, if the United States wants to go around the world through Italy, Italy should be able to go around the world through the United States of America. I said that this kind of visual reciprocity was discussed by Mr. Loy, along with many other forms of balances in route exchanges. My point was that unless his government and my government could first decide on what a route exchange should provide, and how to measure it, we were not going to get anywhere. We are not insisting that the U.S. approach to reciprocity was Holy Writ, but it is essential that both sides reach a common basis for discussing route exchanges.

Serafini said that he was sure Ambassador Capomazza and General Santini would be interested, as he would be, in reading Mr. Loy's speech.

During the discussion, Serafini said that U.S. civil aviation policy was designed to further the interests of its global carriers, just as Italian civilian aviation policy had been designed to further the interests of its carriers. He understood why, as Secretary Rusk had said in his letter to Fanfani, the United States had originally proposed freedom of the air akin to the freedom of the seas that enables ships to call at any port without permission. On the other hand, the policy of Italy and most of the other countries in the world was quite different. I made two observations: 1) Now that Alitalia is a global carrier, or a would-be global carrier, policy changes might be indicated for Italy. Serafini said that was exactly why the Foreign Office was amenable to dropping capacity demands in favor of a good route exchange in our bilateral negotiations. 2) I noted that most other countries may prefer a different practice, but insofar as bilateral treaties with the United States are concerned, all other countries accept Bermuda premises. This brings up again the question of whether Italy is interested in a bilateral comparable to those of other major air powers, or not. We had certainly welcomed the strong indications that Italy could drop capacity restrictions in

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favor of good routes, and were prepared to offer routes comparable to those of other European countries. The route request that emerged in the negotiations however had come as a distinct shock to us since Italy was requesting routes that were in no way comparable to those of other air powers but were in all respects excessive. If this was done as a bargaining ploy, it was unfortunate. The results had certainly not been satisfactory either to them or to us.

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